

Message Text

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SUBJ: ASSISTANCE TO U.S. BUSINESS: GENERAL ELECTRIC AND
DOW CHEMICAL COMPANY

1. FOLLOWING MY DISCUSSION WITH MINISTER OF INDUSTRIES AND MINES
REZA AMIN ON PROBLEM OF GENERAL MOTORS (TEHRAN SEPTTEL), I RAISED
WITH AMIN PROBLEMS WHICH TWO POTENTIAL LARGE U.S. INVESTORS,
GENERAL ELECTRIC AND DOW CHEMICAL COMPANY, HAD ASKED EMBASSY TO
BRING UP WITH GOI. SUMMARY OF THESE PROBLEMS AND AMIN'S RESPON-
SES TO MY INTERCESSION FOLLOW.

2. GENERAL ELCTRIC. GOI'S INDUSTRIAL DEVELOPMENT AND
RENOVATION ORGANIZATION (IDRO) HAD SELECTED GENERAL ELECTRIC OF
U.S. AND ASEA OF SWEDEN AS BEST QUALIFIED FIRMS TO SUPPLY ELEC-
TRIC LOCOMOTIVE TECHNOLOGY, VIZ., SUPPLY OF ESTIMATED 120 DIESEL
ELECTRIC LOCOMOTIVES DURING 1978-79 AND PROJECT FEASIBILITY STUDY
FOR MANUFACTURE IN IRAN OF ELECTRIC LOCOMOTIVES. WHILE IDRO TEAM
DID VISIT ASEA FACILIES IN SWEDEN, VISIT TO GE FACILITIES
JANUARY 1978 WAS DELAYED AND FEBRUARY RESCHEDULED VISIT WAS
CANCELLED AT LAST MOMENT. BASED ON "EXECUTIVE DECISION" AT
LEVEL ABOVE IDRO, IRANIAN STATE RAILWAYS AND MINISTRY OF
INDUSTRIES AND MINES, IDRO HAS NOW DECIDED TO NEGOTIATE EX-
CLUSIVELY WITH ASEA AND KRUPP. GE REP HERE ASSERTS AS FOLLOWS:

1) U.S. MANUFACTURERS HAVE SOLD OVER 40,000 LOCOMOTIVES TO 75

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COUNTRIES WHILE ASEA HAS VERY LIMITED EXPERIENCE IN WORLDWIDE
EXPORTS. 2) ASEA'S SUCCESS LIMITED TO EUROPEAN RAILROAD ENVIRON-
MENTS. 3) IRANIAN STATE RAILWAYS FAMILIAR WITH U.S. EQUIPMENT.
4) ASEA EXPERIENCE ALMOST EXCLUSIVELY IN HIGH-SPEED PASSENGER
SERVICE ON WELL-MAINTAINED TRACKS WHILE U.S. LOCOMOTIVES DE-
SIGNER FOR HEAVY FREIGHT IN RUGGED ENVIRONMENT (E.G., IRAN).
5) U.S. EQUIPMENT HAS DECIDED EDGE IN NATIONAL SECURITY ASPECTS,

E.G., PARTS AVAILABILITY IN CRISIS PERIODS, SHORT PRODUCTION CYCLE, LARGE-SCALE PRODUCTION. GE REP HERE IS FRANKLY MYSTIFIED (AS IS EMBASSY) AS TO WHO "HIGHER UP" DIRECTED THAT IDRO PROCEED EXCLUSIVELY WITH ASEA AND WHY. I GAVE MINISTER AMIN SUMMARY OF FOREGOING AND ASKED FOR HIS COMMENT.

3. AMIN REPLIED THAT ASEA DOES NOW HAVE "FAVORED" POSITION BUT HE COULD NOT RECALL THE DETAILS IN THIS REGARD BUT PROMISED TO LET ME KNOW. AT ONE POINT IN THE CONVERSATION HE ASKED WHETHER GE WILL RESPOND TO GOI INVITATION TO SUBMIT A PROPOSAL ON THE MANUFACTURE IN IRAN OF HEAVY ELECTRICAL EQUIPMENT. IN RESPONSE TO MY QUESTION, HE SAID THAT QUESTION OF LOCOMOTIVE SUPPLY/MANUFACTURE WAS NOT RPT NOT LINKED TO ELECTRICAL EQUIPMENT MANUFACTURING FACILITY. SUBSEQUENTLY WE HAVE LEARNED THAT GE TEAM COMING TO IRAN APRIL 8 TO EXAMINE WITH GOI PROJECT FEASIBILITY STUDY FOR HEAVY ELECTRICAL EQUIPMENT MANUFACTURING. I HAVE IMPRESSION THAT AMIN'S STATEMENT THAT HE WILL CHECK THE RECORD AND GET BACK TO ME ACTUALLY MEANS THAT HE WILL SEEK GUIDANCE FROM SOME PLACE "HIGHER UP" BEFORE RESPONDING. EMBASSY WILL CONTINUE TO PURSUE MATTER.

4. DOW CHECMICAL COMPANY. AS DEPARTMENT KNOWS, DOW WAS ONE OF SEVERAL U.S. CHECMICAL COMPANIES WHO RECEIVED GOI LETTER OF INTENT IN APRIL 1974 FOR 50-50 PERCENT JOINT VENTURE WITH NATIONAL PETROCHEMICAL COMPANY (NPC) TO MANUFACTURE PETROCHEMICAL FEEDSTOCKS. SINCE THEN COSTS HAVE ESCALATED CONSIDERABLY IN IRAN AND U.S. AND LIMITED OFFICIAL USE

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RESULTING FINANCING PROBLEMS HAVE DELAYED THE FINALIZATION OF THE JOINT VENTURE. DOW RECENTLY, HOWEVER, RE-OPENED TALKS WITH NPC AND PREPARED TO INVEST ABOUT DOLS 50 MILLION INITIALLY IN JOINT PETROCHEMICAL FACILITY. EMBASSY DOES NOT KNOW WHAT OUTSTANDING ISSUES, IF ANY, MAY EXIST BETWEEN DOW AND NPC. DOW IS QUITE CONCERNED THAT THEY WILL SPEND HUNDREDS OF THOUSANDS OF DOLLARS IN FEASIBILITY STUDIES FOR THE JOINT VENTURE AND IN THE END GET NOTHING FOR THEIR EFFORTS. DOW PERCEIVES SOME DEALYS ON NPC SIDE AND FEARS THAT NPC MAY BE USING DOW AS A STALKING HORSE FOR ANOTHER FAVORED FOREIGN PETROCHEMICAL COMPANY. I ASKED MINISTER AMIN WHAT HE KNEW ABOUT DOW'S PROJECTED INVESTMENT IN IRAN.

5. AMIN REPLIED AT ONCE THAT HIS MINISTRY HAD GIVEN WRITTEN PERMISSION FOR DOW TO COME IN ON A 50-50 BASIS WITH NPC. GOI REGULATIONS PROVIDE FOR MAXIMUM 35 PERCENT IN HIGH TECHNOLOGY VENTURES BUT GOI MADE EXCEPTION IN THIS CASE SINCE APRIL 1974 LETTER OF INTENT PRE-DATED THE REGULATIONS. HE EMPHASIZED THAT AS FAR AS HIS MINISTRY WAS CONCERNED, THERE IS NO BAR TO DOW'S COMING IN; HE, AMIN, HAD GIVEN THE GREEN LIGHT. HOWEVER, DOW MUST NOW REACH AGREEMENT WITH NPC AND OF COURSE NPC'S EQUITY IN THE VENTURE MUST COME OF OF NPC'S BUDGET. EMBASSY WILL PURSUE

MATTER FURTHER WITH NPC MANAGING DIRECTOR MOSTOFI.
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